REPORT OF FINANCIAL EXAMINATION

PARAGON LIFE INSURANCE COMPANY

AS OF DECEMBER 31, 2002



STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

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Honorable Alfred W. Gross, Commissioner State Corporation Commission Bureau of Insurance Commonwealth of Virginia Chairman, Financial Condition (E) Committee, NAIC

Honorable Sally McCarty, Commissioner Indiana Department of Insurance Secretary, Midwestern Zone, NAIC

Honorable Scott B. Lakin, Director Missouri Department of Insurance 301 West High Street, Room 530 Jefferson City, Missouri 65101

Lady and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Paragon Life Insurance Company

also referred to as "PLIC" or as the "Company." The examination was conducted at the Company's home office at 190 Carondelet Plaza, St. Louis, Missouri 63105, telephone number (314) 862-2211. This examination began on November 17, 2003, and concluded March 5, 2004.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Paragon Life Insurance Company was performed as of December 31, 1999. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2000, through December 31, 2002. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring after December 31, 2002.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

Comments Previous Examination

Listed below are the comments and recommendations taken from the prior Report of Financial Examination as of December 31, 1999. The responses or actions taken by the Company are also described below.

Comment: Accounts and Records

The Company violated 20 CSR 200-4.010 (Books, Records, Accounts and Vouchers) which states, "The insurer shall provide within five working days, any record requested by any duly appointed financial examiner . . ." Numerous records were not provided to the examiners within the five day limit, even after repeated requests. We direct the Company to respond to the Missouri Department of Insurance requests within the five working day time limit at the time of the next examination.

Company Response:

"The examination comment regarding Paragon's slow response to the Department's examination requests is duly noted. Paragon will make every effort to comply with future requests in a timelier manner."

Current Findings:

The examination again noted occasions where responses to examination requests were not received within the five-day statutory limit. Exceptionally long response times were primarily noted in the month of January when the Company was completing the 2003 Annual Statement. The examination team had discussed this situation with the Company at the beginning of the examination fieldwork and was aware that there would be delays during this period due to the small size of the Company's accounting staff.

HISTORY

General

The Company was incorporated on August 3, 1981, as General American Insurance Company and began business in October 1982.

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Before 1985, the Company reinsured business written by its parent, General American Life Insurance Company. Subsequently, the Company began writing traditional whole life and universal life coverage on a direct basis. In 1987 most of the existing whole life business was bulk reinsured with General American Life Insurance Company.

On January 13, 1988, the Company adopted its current name. Since 1988, Paragon Life Insurance Company has confined its marketing effort to employer-sponsored universal life and variable universal life products on both an individual and group basis. Paragon Life Insurance Company markets high dollar face value policies.

On January 6, 2000, Metropolitan Life Insurance Company completed its acquisition of GenAmerica Corporation, for approximately \$1.2 billion in cash making Paragon Life Insurance Company a member of the Metropolitan Life Insurance Company holding company system.

Paragon Life Insurance Company is currently licensed by the Missouri Department of Insurance under Chapter 376 RSMo "Life and Accident Insurance" to write the following lines of business as set forth in its certificate of authority: life, annuities and endowments, accident and health insurance, and variable contracts.

Capital Stock

Effective June 1, 2000, the Company amended its Articles of Incorporation to change the par value of its common stock to \$150 per share. There was no change in the number of shares issued or authorized. This change increased the capital stock account and reduced the paid in and contributed surplus account by \$1,025,000 each.

On August 1, 2002, the Company received a capital contribution of \$9,500,000 from General American Life Insurance Company. This increased the paid in and contributed surplus account to \$26,425,000.

The Articles of Incorporation authorize the Company to issue 100,000 shares of common stock with a par value of \$150 per share. There were 20,500 shares of common stock issued and outstanding at December 31, 2002, resulting in a balance of \$3,075,000 reported in the capital stock account. The owner of all shares outstanding is General American Life Insurance Company.

Dividends

No dividends have ever been paid by the Company.

Management

The articles of incorporation and bylaws of the Company require not less than nine, or more than twenty-one directors. There were nine directors elected and serving as of December 31, 2002, as follows:

<u>Name</u>	Principal Occupation
Roy C. Albertalli	Chief Counsel
Berkeley Heights, NJ	MetLife, Incorporated
Euguene J. Marks Jr.	Senior Vice President
Fairfield, CT	MetLife, Incorporated
Stanley J. Talbi	Senior Vice President
Plainsboro, NJ	MetLife, Incorporated
Craig J. Guiffre Bridgewater, NJ	Vice President & Chief Marketing Officer MetLife, Incorporated
Michael J. McDermott	Vice President
Chagrin Falls, OH	MetLife, Incorporated

Name Principal Occupation

Anthony F. Trani President & Chief Executive Officer St. Louis, MO Paragon Life Insurance Company

Nicholas D. Latrenta Senior Vice President Hillsdale, NJ MetLife, Incorporated

Craig K. Nordyke Executive Vice President & Chief Actuary

St. Charles, MO Paragon Life Insurance Company

Michael W. Witwer Vice President

Norwalk, CT MetLife, Incorporated

The bylaws call for a president, one or more vice presidents, a secretary, a treasurer and other officers and assistant officers as may be deemed necessary. The same person may hold any two offices (except the offices of president, vice president and secretary). The officers of the Company elected and serving as of December 31 2002, were as follows:

Name Office
Anthony F. Trani President

Craig K. Nordyke Executive Vice President &

Chief Actuary

Elizabeth A. Rich** Secretary

Matthew K. Duffy Treasurer

Conflict of Interest

MetLife, Inc. annually conducts a review referred to internally as the Business Conduct Program. This program is intended to disclose any potential conflicts of interest of its officers and directors. The program has been conducted in prior years, but was delayed in 2002 due to an effort to update procedures to comply with the Sarbanes-Oxley legislation. This delayed the launch of the program until 2003. It is recommended that

^{** -} Elizabeth A. Rich was actually the Assistant Secretary at December 31, 2002. She was elected to the Secretary position on December 17, 2003.

the Company take appropriate measures to ensure that conflict of interest disclosure statements are completed by all officers and directors on an annual basis. A review of the statements for 2001 and 2003 indicated no material conflicts disclosed by the directors or officers.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company. The only amendment made was to increase the par value of the Company's capital common stock to \$150 per share as described in the "Capital Stock" section above.

The minutes of the meetings of the stockholders and board of directors were also reviewed for the period under examination. The minutes appeared to document and approve applicable corporate events and transactions.

In June of 2001, each director signed an affidavit stating he had reviewed the Report of Financial Examination made by the Missouri Department of Insurance as of December 31, 1999.

Acquisitions, Mergers, and Major Corporate Events

On January 6, 2000, Metropolitan Life Insurance Company completed its acquisition of GenAmerica Corporation, for approximately \$1.2 billion in cash making Paragon Life Insurance Company a member of the Metropolitan Life Insurance Company holding company system.

Surplus Debentures

The Company has not issued any surplus debentures.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

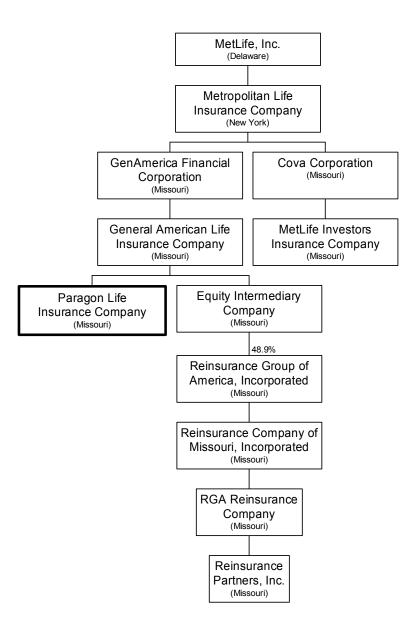
The Company is part of an insurance holding company system as defined by Section 382.010 RSMo "Definitions." of which MetLife, Incorporated is the ultimate controlling entity.

Paragon Life Insurance Company is a wholly owned subsidiary of General American Life Insurance Company, which is wholly owned by GenAmerica Financial Corporation (GenAm). GenAm is wholly owned by Metropolitan Life Insurance Company, a New York domiciled insurance company. Metropolitan Life Insurance Company converted from a mutual life insurance company to a stock life insurance company on April 7, 2000, and became a wholly-owned subsidiary of MetLife, Incorporated.

GenAm has appropriately filed Insurance Holding Company System Annual Registration Forms B and C on behalf of Paragon Life Insurance Company and other insurance companies for the years under examination.

Organizational Chart

The following is a small segment of the entire MetLife, Inc. organizational chart and only depicts those companies directly related to Paragon Life Insurance Company and other Missouri domiciled companies in the group. All companies are 100% owned by their immediate parent unless otherwise noted.



Intercompany Transactions

According to the agreement summary filed with the Company's amended 2002 Form B filing (filed in July 2003) Paragon Life Insurance Company is party to the following management/service agreements with its affiliates. Reinsurance agreements with affiliates are discussed in the reinsurance section of this report.

It was noted that the agreements below were amended during the current examination period to reflect the transition to MetLife, Inc. or Metropolitan Life Insurance Company as the provider of many of the services after their acquisition of General American Life Insurance Company in 2000. Significant time delays and/or omissions were noted in the filing of these agreements with the Missouri Department of Insurance as required by Section 382 RSMo. The Missouri Department of Insurance and MetLife Group have reviewed these deficiencies and the Missouri Department of Insurance has waived any penalties for such violations due to the subsequent filing of the agreements along with incorporation of certain improvements and training of individuals having controls over these functions. The Missouri Department of Insurance has advised the Company that if future violations occur, that the Department will assess all penalties available under Section 382.265 RSMo.

1. Type Guarantee Agreement

Parties: General American Life Insurance Company (GALIC) and Paragon Life

Insurance Company

Effective: June 13, 1991

Terms: GALIC has agreed to provide financial guarantees for its subsidiaries,

including Paragon Life Insurance Company. The guarantee provides that GALIC will pay claims directly to policyholders if Paragon Life Insurance Company is unable to make a payment for a legitimate claim presented under an insurance policy issued by Paragon Life Insurance Company. No fees were

paid under this agreement during the period under examination.

2. Type Tax Allocation Agreement

Parties: General American Life Insurance Company and Paragon Life Insurance

Company

Effective: October 30, 1992, amended January 7, 2000

Terms: GALIC and its subsidiaries, including Paragon Life Insurance Company, will

file consolidated federal, state and local income tax returns. The tax liabilities will be allocated among the subsidiaries in the proportion that the separate return tax liability of the individual members bears to the total tax

liability of the members computed on a separate return basis.

The liability shall be allocated among the members in accordance with the provisions of Section 1552(a)(2) of the IRC of 1986, as amended, and

Treasury Reg. §1.1502-33(d)(3)(i).

3. Type: Investment Management Agreement

Parties: Metropolitan Life Insurance Company and Paragon Life Insurance Company

Effective: January 1, 2001

Terms: Metropolitan Life Insurance Company will provide investment management

services, portfolio management services and back-office services for Paragon Life Insurance Company's general account invested assets. Metropolitan Life Insurance Company will be reimbursed on a quarterly basis for the indirect and direct expenses of providing these services. Paragon paid fees to Metropolitan Life Insurance Company of \$104,416 and \$88,402 related to

this agreement for 2002 and 2001 respectively.

4. Type: Services Agreement

Parties: Metropolitan Life Insurance Company, other MetLife subsidiaries,

GenAmerica Financial Corporation and its subsidiaries, and Paragon Life

Insurance Company

Effective: January 1, 1978, amended various times with the latest amendment to the

Service Agreement effective January 1, 2003.

Terms:

Under the Service Agreement in place at December 31, 2002, Metropolitan Life Insurance Company agrees to provide Paragon Life Insurance Company with personnel, equipment and facilities at cost and will provide services on their behalf, including legal, communications, human resources, broker-dealer, general management, controller, investment management, actuarial, treasury, benefits management, systems and technology, adjustment, claims, underwriting, and policyholder services. Paragon Life Insurance Company paid \$11,535,334 related to these services in 2002.

5. Type: Principal Underwriting Agreement

Parties: General American Distributors, Inc. and Paragon Life Insurance

Company

Effective: November 14, 2002

Terms:

General American Distributors, Inc. agrees to serve as the principal underwriter of certain flexible premium variable life contracts issued by Paragon Life Insurance Company. General American Distributors, Inc. will not offer or sell the contracts directly to applicants. Paragon Life Insurance Company agrees to pay commissions and other fees to broker-dealers as stipulated in the terms of the sales agreement between General American Distributors, Inc. and the broker-dealers. The commission rates are based upon Paragon Life Insurance Company's commission schedules. General American Distributors, Inc. will receive compensation from Paragon Life Insurance Company at a rate of \$3,500 per prospectus, with a minimum of \$40,000 per year. PLIC paid General American Distributors, Inc. \$43,035 for these services in 2002.

6. Type: Selling Agreement

Parties: Metropolitan Life Insurance Company, Walnut Street Securities and Paragon

Life Insurance Company

Effective: May 1, 2001

Terms: Metropolitan Life Insurance Company will assist Paragon Life Insurance

Company with referrals of group variable universal life insurance policies

(through Walnut Street Securities). The terms of this agreement call for fees of

\$5,000 per case for referrals by MetLife Voluntary Benefits Group or Group

Regional Office and fees of \$5,000-\$15,000 per case for referrals by National

Accounts. Paragon life incurred expenses related to "referral fees" of \$136,782

in 2002.

7. Type: Pricing Structure & Service Level Agreement

Parties: General American Life Insurance Company and Paragon Life Insurance

Company

Effective: December 1, 2000

Terms: General American Life Insurance Company will provide underwriting services

for life insurance written by Paragon. The price to perform underwriting will

be \$25 - \$150 per case, depending on whether the interview is successful or

not, with a minimum fee of \$3,000 per month. Paragon paid General American

\$365,507 in 2002 related to this agreement. The agreement was terminated in

2002.

FIDELITY BOND AND OTHER INSURANCE

Paragon Life Insurance Company's insurance coverage is administered by MetLife, Incorporated, which purchases insurance coverage for itself and its subsidiary companies. MetLife, Inc. and its subsidiaries are named insureds on a financial institution bond with an aggregate loss limit of \$50,000,000 and a deductible of \$5,000,000 per loss. The minimum fidelity bond requirements for Paragon as suggested by the NAIC is \$1 million, in essence rendering them not covered by a fidelity bond (or exposing over 25% of the Company's surplus due to the \$5 million deductible). It is recommended that the Company's deductible be reduced to a more manageable level or that MetLife, Inc. provide written assurances that covered losses under this policy within the deductible will be covered by the parent company and not taken from the surplus of the Paragon Life Insurance Company.

MetLife, Inc. and its subsidiaries have several other insurance policies, including, but not limited to: "all risk" property insurance, aircraft insurance, commercial general and automobile liability insurance, excess liability insurance, directors' and officers' liability insurance and workers' compensation and employers' liability insurance.

EMPLOYEE BENEFITS

The Company has no employees. All employee services are provided through a service agreement with the Company's parent.

Full-time employees can select from a range of options including long-term disability protection, life insurance, voluntary accident insurance, medical coverage, dental care, vision care and flexible spending accounts. The Company pays most of the cost with employee contributions required in some areas.

The Company also participates in a qualified, noncontributory defined benefit plan sponsored by General American Life Insurance Company. The Company has no legal obligation for benefits under this plan. The Company's share of net expenses for the plan was \$69,185 in 2002. The Company provides other post retirement benefit plans such as a progress sharing savings plan that includes a 401-(k) savings account with matching features. The Company's share of net expense for the other post retirement benefit plan was \$35,976 for 2002.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2002, as reflected below, were deemed sufficient in par and market value to meet the deposit requirements for the state of Missouri in accordance with Section 376.290 RSMo (Trust Deposits).

		Market	Statement
<u>Security</u>	Par Value	<u>Value</u>	<u>Value</u>
U.S. Treasury Note	\$ 325,000	\$ 354,757	\$ 324,708
U.S. Treasury Note	325,000	363,493	337,076
U.S. Treasury Note	<u>1,000,000</u>	<u>1,107,500</u>	1,027,217
Total	\$1,650,000	\$1,825,750	\$1,689,001

Deposits with Other States

The Company also has funds on deposit with various other states. Those funds on deposit as of December 31, 2002, were as follows:

			Market	Statement
<u>State</u>	<u>Security</u>	Par Value	<u>Value</u>	<u>Value</u>
Florida	U.S. Treasury Note	\$ 120,000	\$ 134,213	\$ 124,459
Georgia	U.S. Treasury Note	50,000	61,000	54,723
Massachusetts	U.S. Treasury Notes	320,000	392,489	319,156
New Hampshire	e U.S. Treasury Note	500,000	536,875	524,075
New Mexico	U.S. Treasury Note	105,000	134,466	103,298
North Carolina	U.S. Treasury Note	125,000	143,829	132,786
South Carolina	U.S. Treasury Note	165,000	211,304	162,326
Virginia	U.S. Treasury Note	<u>65,000</u>	<u>72,699</u>	<u>67,415</u>
	Total	\$1,450,000	\$1,686,874	\$1,488,238

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed under Chapter 376 RSMo. "Life and Accident Insurance" to write life, annuities, endowments; accident and health; and variable contracts. The Company is licensed in all fifty states and the District of Columbia.

The Company has only issued three products: group variable universal life, individual variable universal life and second-to-die joint life variable universal life. Currently, group variable universal life is the only product being offered by Paragon Life Insurance Company and is marketed under the product name "Paragon Select."

In prior years, the Company's group variable universal life product has been marketed under different names when marketed to different groups, however, the underlying aspects of the product has remained the same. Products marketed by the Company are as follows:

- 1. Paragon Select (or Paragon Preferred) is a group variable universal life product marketed to companies with 50 or more highly compensated employees as an executive carve out
- 2. ABA Preferred is a group variable universal life plan marketed to law firms with 50 or more attorneys.
- 3. MedPreferred is a group variable universal life plan marketed to medical practices with 50 or more physicians.
- 4. ABA Premier is an individual variable universal life plan marketed to American Bar Association attorneys and spouses.
- 5. The Fee-based planner market made up of high income and/or high net worth individuals is targeted with two products: Paragon variable universal life and Paragon's second-to-die joint life variable universal life.

As of December 2002, the group variable universal life business in force consisted of 271 groups made up of approximately 44,600 individuals. In addition, there are approximately 25,500 group variable universal life policies in force that are direct billed to individuals no longer associated with a group. There are approximately 50 individual variable universal life policies in force and less than 10 of the second-to-die joint life variable universal life policies in force.

Policy Forms & Underwriting; Advertising & Sales Material and Treatment of Policyholders

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate market conduct report. However, there has never been a market conduct examination conducted for this Company.

The Company has a complaint system in place and complaints appear to be addressed in a timely manner.

REINSURANCE

General

The Company's premiums on a direct written and ceded basis for the current examination period was as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Direct Business	\$85,095,924	\$84,504,312	\$97,136,713
Reinsurance Ceded	20,774,011	22,219,228	31,712,208
Net Premiums	\$64,321,913	\$62,285,084	\$65,424,505

The Company's major reinsurance coverage and activity during the period under examination was as follows:

Assumed

The Company did not assume any reinsurance during the period under examination.

Ceded

From 1987 to 1999, the Company's primary reinsurer was affiliate RGA Reinsurance Company. Paragon Life Insurance Company ceded risks over \$50,000 through automatic and/or facultative yearly renewable term reinsurance agreements.

The Company has one treaty in place with Equitable Life Assurance Society of the US. This is a facultative treaty and reinsures the General American Life Insurance Company deferred compensation program sold by Paragon Life Insurance Company.

Because of the downgrading of General American Life Insurance Company's (GALIC) credit rating by various rating agencies in August 1999, Metropolitan Life Insurance Company supported GALIC and various of its subsidiaries, including Paragon Life Insurance Company, with a 100% modified coinsurance reinsurance agreement. This agreement had an effective date of July 25, 1999, and was terminated January 6, 2000. All business sold during this time-period that was not ceded under existing reinsurance agreements, was ceded to Metropolitan Life Insurance Company. This block of business is now in run-off.

Effective January 1, 2002, Metropolitan Life Insurance Company became the Company's primary reinsurer. The companies entered into an Automatic and Facultative Yearly Renewable Term Reinsurance Agreement whereby Metropolitan Life Insurance Company assumes all new Paragon Select Group Variable Universal Life business effective January 1, 2002 or later. Paragon Life Insurance Company retains a maximum of \$100,000 per life.

Effective April 1, 2002, renewals under the \$50,000 retention limit for the yearly renewable term treaty with RGA (described above) are now assumed by Metropolitan Life Insurance Company.

ACCOUNTS AND RECORDS

General

The Company's financial statements are prepared based on statutory accounting principles. Accounting entries are currently recorded using the PeopleSoft general ledger software system maintained on a local area network. Policy administration is recorded through the use of the Vantage program, a purchased software program that has been customized to meet reporting needs. Reinsurance transactions are processed through the use of the TAI system purchased by the Company from an outside vendor.

Independent Auditor and Actuary

The Company's financial statements through 1999 were audited annually by KPMG LLP. Beginning with the year ending December 31, 2000, Deloitte & Touche, LLP began performing the independent audit function. A review was made of the available workpapers from the 2002 audit. These workpapers and reports were used in the course of this examination as deemed appropriate.

Reserves and related actuarial items are reviewed and certified by Craig K. Nordyke, FSA, MAAA, Executive Vice President and Chief Actuary of the Company.

Consulting actuary, Donna K. Ferguson, FSA, MAAA, of Lewis & Ellis Inc., was retained by the Missouri Department of Insurance to review the adequacy of reserves and other related liabilities.

The Information Systems Examination Specialist with the Missouri Department of Insurance reviewed the Company's information systems with no major problems noted.

Annual Statement Schedule Y – Part 2

It was noted that the Company materially misreported the expenses incurred related to Management Agreements and Service Contracts in the 2002 Annual Statement Schedule Y - Part 2 - Transactions with Affiliates. NAIC Annual Statement Instructions prescribe that "all revenues/expenditures under management agreements and service contracts, etc. and all income tax amounts resulting from intercompany tax-sharing arrangements" be included in column 8 of Schedule Y - Part 2. The Company reported \$3,512,318 in this column, when it appears that the correct amount should have been \$13,179,762 (\$11,535,334 to MetLife-Services, \$369,507 to GALIC, \$104,406 to MetLife-Investment Management, \$990,688 to GALIC-Federal Income Taxes, \$136,782 to MetLife-Selling Agreement and \$43,035 to Gen American Distributors, Inc.). It is recommended that the Company include all expenses incurred under management contracts in Schedule Y – Part 2 in future Annual Statement filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2002, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual financial statement item.

ASSETS

	Ledger and Non- Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$ 112,868,859		\$ 112,868,859
Common stocks	1,905,511		1,905,511
Policy loans	24,491,272		24,491,272
Cash and short term investments	6,071,970		6,071,970
Amounts recoverable from reinsurers	261,140	32,358	228,782
Reinsurance expense allowances due	114,954		114,954
Experience rating refunds due	3,447,111		3,447,111
EDP equipment NOTE 1	2,417,418	2,407,380	10,038
Federal and foreign income taxes	589,227		589,227
Guaranty funds receivable	15,400	2,402	12,998
Investment income due and accrued	2,478,727		2,478,727
Other assets nonadmitted	1,520,863	1,520,863	-
From Separate Accounts Statement	208,408,337	_	208,408,337
Total Assets	\$ 364,590,789	\$ 3,963,003	\$ 360,627,786

LIABILITIES SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts		\$ 114,561,557
Liability for deposit-type contracts		82,423
Life policy and contract claims		2,277,380
Commissions to agents due or accrued		213,101
General expenses due or accrued	NOTE 2	3,446,771
Transfers to Separate Accounts due or accrued		432,188
Taxes, licenses and fees due or accrued		738,199
Federal income taxes	NOTE 3	1,252,922
Unearned investment income		254,413
Amounts withheld or retained by company as trustee		382,986
Remittances and items not allocated		2,787,715
Asset valuation reserve		229,701
Payable to affiliates	NOTE 2	1,148,391
Amounts due reinsurer		2,564,743
From Separate Account Statement		208,165,088
Total Liabilities		\$ 338,537,578
Common capital stock		\$ 3,075,000
Paid in and contributed surplus		26,425,000
Unassigned funds (surplus)		(7,409,792)
Total Capital and Surplus		\$ 22,090,208
Total Liabilities and Capital and Surplus		\$ 360,627,786

SUMMARY OF OPERATIONS

Reserve adjustments on reinsurance ceded	\$ 639,246	5
Income from fees associated with Separate Accounts	1,679,958	3
Other Income	30,716	5
Experience Rating on reinsurance ceded	5,066,472	2
Death benefits	(7,652,360))
Surrender benefits and withdrawals for life contracts	(18,851,564	1)
Interest on deposit-type contracts	(1,866	6)
Increase in aggregate reserves	(6,383,786	6)
Commissions on premiums	(1,354,903	3)
General insurance expenses	(17,826,49)	1)
Insurance taxes, licenses and fees	(2,384,035	5)
Net transfers to Separate Accounts	(25,168,547)	<u>7)</u>
Gain from operations before federal income taxes and a	realized	
capital gains or (losses)		\$ 2,640,507
Federal income taxes incurred	(990,688	8)
Net realized capital gains or (losses)	(876,849	
Net Income		\$ 772,970
CAPITAL AND SURPLUS A	CCOUNT	
Surplus as regards policyholders, December 31, 2001		\$ 12,929,723
Net income	772,970	
Change in net unrealized captial gains (losses)	(10,000	
Change in nonadmitted assets	(574,61)	
Change in net deferred income tax	(1,01	
Change in asset valuation reserve	(14,03	1)
Change in paid in and contributed surplus	9,500,000)
Examination Report Changes	(512,824	<u>4)</u>
Change in surplus as regards policyholders		9,160,484
Surplus as regards policyholders, December 31, 2001		\$ 22,090,207

NOTES TO FINANCIAL STATEMENTS

NOTE 1 EDP Equipment

\$10,038

The company incorrectly interpreted SSAP 16 by including non-operating system software in the admitted value of EDP equipment reported as an asset in the 2002 Annual Statement. This caused the account to be overstated by \$512,824.

NOTE 2 General Expenses Payable To Affiliates

\$3,446,771 \$1,148,391

The Company included \$1,148,391 in liability line L-12 as General Expenses Due or Accrued of fees that were actually intercompany charges payable to Metropolitan Life Insurance Company as part of its services agreement. As such, these balances should have been reported on liability line 24.4 as Payable to Affiliates.

NOTE 3 Federal Income Tax Payable Payable To Affiliates

\$1,252,922 \$1,148,391

The Company reported \$1,252,922 as "payable to affiliates." Upon investigation, these funds were payable to General American Life Insurance Company for Federal Income Taxes incurred under the Tax Sharing Agreement between the parties. According to NAIC Annual Statement instructions, amounts payable under intercompany tax sharing arrangements should be excluded from being reported in the Payable to Affiliates liability line of the Annual Statement. Therefore, this liability was reclassified to liability line 15 as Federal and Foreign Income Taxes Payable.

EXAMINATION CHANGES

Surplus as regards policyholders per Company, December 31, 2002:

Common capital stock	\$ 3,075,000
Paid in and contributed surplus	26,425,000
Unassigned funds (surplus)	<u>(6,896,968)</u>
Total surplus as regards policyholders	<u>\$22,603,032</u>

	Increase In Surplus	Decrease In Surplus	
EDP equipment General expenses due or accrued Payable to affiliates Federal income taxes	1,148,391	(512,824) (1,148,391) (1,252,922)	NOTE 1 NOTE 2 NOTE 2 NOTE 3
Payable to affiliates Totals	1,252,922 2,401,313	$\frac{(2,914,137)}{(2,914,137)}$	NOTE 3
Net Change			(512,824)

Surplus as regards policyholders per examination, December 31, 2002:

Total surplus per Company	\$22,603,032
Examination Changes	(512,824)
<u> </u>	
Total surplus per examination, December 31, 2002	\$22,090,208

GENERAL COMMENTS AND/OR RECOMMENDATIONS

<u>Conflict of Interest</u> <u>Page 6</u>

It was noted that the Company's directors and officers did not complete conflict of interest disclosure statements in 2002. It is recommended that the Company take appropriate measures to ensure that conflict of interest disclosure statements are completed by all officers and directors on an annual basis.

<u>Fidelity Bond</u> <u>Page 14</u>

It is recommended that the Company's deductible on its fidelity coverage be reduced to a more manageable level or that MetLife, Inc. provide written assurances that covered losses under this policy within the deductible will be covered by the parent company and not taken from the surplus of the Paragon Life Insurance Company.

Annual Statement Schedule Y – Part 2

Page 21

The Company materially misreported the expenses incurred related to Management Agreements and Service Contracts in the 2002 Annual Statement Schedule Y-Part 2-Transactions with Affiliates. The Company reported \$3,512,318 for expenses incurred, when it appears that the correct amount should have been \$13,179,762. It is recommended that the Company include all expenses incurred under management contracts with affiliates in Schedule Y-Part 2 in future Annual Statement filings.

SUBSEQUENT EVENTS

There have been no significant subsequent events.

ACKNOWLEDGMENT

The assistance and cooperation extended by Paragon Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Robert P. Jordan, CFE and John M. Boczkiewicz, CPA, CFE examiners for the Missouri Department of Insurance, participated in this examination. Donna K. Ferguson, FSA, MAAA, of Lewis & Ellis, Inc. reviewed the actuarial assumptions and methods used by the Company in determining policy reserves and related actuarial items.

VERIFICATION

State of Missouri)	
County of Cole)	
the above examination report is true and accupon the books, records or other documents examined or as ascertained from the testim	swear that to the best of my knowledge and belief curate and is comprised of only facts appearing is of the Company, its agents or other persons only of its officers or agents or other persons clusions and recommendations as the examiners
	Michael R. Shadowens, CFE Examiner-in-Charge Missouri Department of Insurance
Sworn to and subscribed before me this day of My commission expires:	1
	Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARe Audit Manager Missouri Department of Insurance